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MALAYSIA

FISCAL TRANSPARENCY

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MALAYSIA



COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2005	2004	2003	2002
Clarity of roles
Availability of information
Budget preparation
Accountability
Score	3.75	3.75	3.25	2.75

OUTLOOK & COMMENTARY

The remaking of 'Malaysia Inc' has gradually clarified and changed the relations between the government and government-linked companies (GLCs). In July 2005, a transformation manual -- Catalysing GLC Transformation to Advance Malaysia's Development -- was launched as part of the 'GLC Transformation Programme', which includes strategies aimed at enhancing corporate governance, developing social leaders and clarifying social obligations to steer the GLCs. In addition, a transformation management office, reporting directly to the prime minister and a Putrajaya Committee on GLC High Performance, has been set up to ensure the success of the programme.

Prime Minister Abdullah Badawi is perceived to be resolute in moving forward the anti-graft campaign. Although there is uncertainty about the pace at which his administration will be able to dismantle the rent-seeking structures at different levels of government and society, steady progress is widely expected. Preliminary debate about the viability of 'freedom of information' legislation has been a welcome sign of the administration's determination to seek greater transparency in all areas of government.

EXECUTIVE SUMMARY

3.75 Compliance in progress

Prime Minister Abdullah Badawi's administration has prioritised efforts to dismantle rent-seeking behaviour, restructure the domestic corporate sector and tackle corruption. Information on the relationship between the government and non-financial public enterprises (NFPEs) and development financial institutions (DFIs) -- which supply services to the government's priority sectors -- has improved but could benefit from additional disclosure. Nonetheless, the reorganisation of government-linked companies (GLCs) is ongoing, with key performance indicators being gradually introduced, and appointments to key positions made in a transparent manner on a contract basis, with the objective of generating economic value. It is expected that by end-2005, an independent global standard of Corporate Governance Ratings will be introduced, with GLCs being the first group of companies subject to the rating system implemented by the Malaysian Institute of Corporate Governance.

Malaysia meets the IMF's Special Data Dissemination Standard for coverage, periodicity, and timeliness of central government data and public sector data, although it has opted for a flexibility option for reporting non-financial public sector data, expanding the reporting period to ten months. The Treasury's *Quarterly Updates* cover data for budgetary accounts, including revenue (tax receipts, excise and export duties), expenditure (operating and development) and government debt. The annual *Economic Report* gives summary information on the consolidated financial position of state governments, the consolidated general government financial position, the financial position of non-financial public enterprises and the consolidated public sector financial position. Information on taxes, procurement, and ethical standards for civil servants is clear and publicly stated.

Central government and general government data (of the non-financial public sector) are compiled under the provisions of the Financial Procedures Act (1957); the Companies Act (1965) governs the procedures for NFPEs data. Information on the methodology, sources of the data and revisions is given in the notes to the *Public Accounts Statement of the Federal Government*. The Treasury's Accountant General Department, the central bank, and the Department of Statistics verify the internal consistency of fiscal information. Financial accountability at departmental levels rests with the controlling officers and the internal audit units. External oversight is carried out by the National Audit Department, which prepares the *Auditor General's Report on the Public Accounts Statement and Activities of the Federal Government Ministries, Departments and Agencies* to be tabled in parliament. The parliamentary Public Accounts Committee (PAC) examines accounting and financial matters, and reviews any findings raised in the auditor general's reports. Fiscal transparency, in terms of increased accountability, would benefit from the PAC being more involved in monitoring budget performance (by requesting information on operating, development or accounting programmes) and by requesting and/or following up on remedial action taken by the Anti-Corruption Agency or the Office of the Attorney General. Nonetheless, the MoF, in its role as a central agency, monitors budget performance and works closely with the Auditor General, Accountant General and the PAC on issues related to government financial matters.

Malaysia's overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES



Enacted

The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.

Structure, functions, and responsibilities of government

Malaysia is a federal state comprising 13 states and three federal territories under a constitutional monarchy. The Yang di-Pertuan Agong (the Supreme Ruler) acts as the constitutional head of state while a prime minister and cabinet exercise executive power. The Malaysian constitution sets out the distribution of legislative and executive powers between the federation and the states, as well as the organisation of the judiciary and the responsibilities of the Supreme Court.¹ The Federal Parliament -- comprising the Yang di-Pertuan Agong, the Senate (Dewan Negara) and the House of Representatives (Dewan Rakyat) -- is the highest judiciary body in Malaysia. Section V of the constitution outlines the division of power and relations between the federal government and the states.

The state governments are headed by ceremonial State Rulers; where there is no hereditary ruler a governor is appointed by the Yang di-Pertuan Agong to be the ceremonial head of state. States are political entities with an executive chief minister (Menteri Besar); governments are elected through general elections for the unicameral legislatures held every five years. State legislatures may enact laws as long as they are consistent with federal laws. Local governments are governed by councils appointed by the state governments or, in the case of the territories, appointed directly by the central government for terms of three years. According to Article 95a of the constitution the National Council for Local Governments is responsible for ensuring that policymaking at all three levels of government is integrated and operates with minimal overlaps where there are concurrent obligations. State and local governments have a relatively well-defined number of responsibilities. The federal constitution and the Local Government Act 1976 establish the Ministry of Housing and Local Government (KPKT) with responsibility for implementing all laws pertaining to local government, the development of local government policy and the implementation of all local government functions.²

For fiscal accounting and reporting purposes, the central government covers all federal (central) government budgetary units, including ministries, departments, and judiciaries. The non-financial public sector includes the general government -- the federal (central) government, statutory bodies, state governments, and local governments - - and large non-financial public enterprises (NFPEs). Large NFPEs are selected based on government (or public sector agency) holdings of at least 50% of total equity and a minimum annual turnover of RM100 million.³

Malaysia's federal political system became highly centralised during Datuk Seri Mahathir Mohamad's 22-year term as prime minister. Although there are clear definitions of responsibilities for the executive, judiciary, and legislature, in practice policy-making usually involved close coordination between federal powers. Since independence in 1957, no change of government has taken place at the federal level. The United Malays National Organisation (UMNO) party (the dominant party in Barisan Nasional, the ruling coalition) has controlled the key economic positions in the cabinet. Mahathir Mohamad's strong leadership style and multiple leadership positions were at times perceived as going beyond the clear constitutional division of powers among the three branches of government.⁴

In October 2003, Abdullah Badawi became prime minister and minister of finance. After his appointment, he spoke in support of implementing laws transparently, without fear or favour.⁵ Commentators have underscored that since coming into power, Abdullah Badawi has exercised a different style of administration, which includes prioritising efforts to dismantle rent-seeking behaviour, restructure the domestic corporate sector and tackle corruption.⁶

Coordination and management of budgetary activities

Clear mechanisms for the coordination and management of budgetary activities are established. The Ministry of Finance (MoF) has overall responsibility for the coordination and management of budgetary and extra-budgetary activities. The Treasury (under the MoF) is responsible for compiling the annual budget, which is divided into an operational budget and a development budget. Articles 99-101 of the constitution set out the basic framework for budgetary activities; the budget formulation process follows a pre-specified set of actions between the government and parliament that are coordinated by the Treasury's Budget Management Division.⁷

In practice, the Treasury prepares the annual operational and development budget. The annual operational budget includes salaries, operational expenses for government offices, and the constitutional grant for the state authorities. Meanwhile, the development budget is prepared based on the cash flow requirements for the projects approved by the Economic Planning Unit (in the Prime Minister's Department) as part of each five-year *Malaysia Plan*, which provides for capital-intensive projects for social and economic development. The federal government provides both general and developmental grants on an annual basis to all local authorities.

The Treasury monitors the expenditure of all ministries and government departments and all matters regarding financial procedures and accounting. Fiscal objectives include the promotion of sustainable economic growth, the improvement of national economic resilience, and a more equitable sharing of national wealth. In addition, a Macroeconomic Inter-Agency Planning Group -- one of many inter-departmental committees -- meets regularly to coordinate fiscal policy responses across agencies. The group consists of representatives from the MoF, Bank Negara Malaysia (BNM, the central bank), the Economic Planning Unit, and the National Economic Action Council.

Relations between government and public sector agencies

The Central Bank Act establishes the BNM as banker and financial adviser to the government, under the oversight of the minister of finance. In 1998, after a public dispute with the prime minister over monetary policy, the governor of the central bank and a deputy governor resigned. An official formerly in the Economic Planning Unit of the Prime Minister's Department then headed the bank temporarily and changed monetary policy to bring it into line with that proposed by then Prime Minister Mahathir Mohamad. In the past, some commentators had stressed that the independence of the BNM has been unclear since then, although bank officers assert that it has remained untouched.⁸ Overall, the BNM has enhanced transparency practices by improving its communication strategy to explain its relationship in policy and technical areas with the MoF, and it continues to work in close contact with government departments in order to ensure greater coordination among macroeconomic policies.

Information on the relationship between the government and the development financial institutions (DFIs) and NFPEs has improved -- but it could still benefit from additional disclosure. In its 2003 Article IV consultation, the IMF encouraged the government to disseminate more information on the quasi-fiscal expenditures of the NFPEs and to gradually incorporate the funding of the development finance institutions within the formal budget process.⁹

Malaysia's DFIs supply financial services to the government's priority sectors of agriculture, infrastructure, *bumiputera*-run (Malays and indigenous) businesses, shipping, high-technology industry, manufacturing and exports. The DFIs range from statutory bodies (for example, Bank Pertanian Malaysia), through wholly owned companies (for example, the Export-Import Bank of Malaysia and Malaysia Export Credit Insurance Bhd are wholly owned by Bank Industri dan Teknologi Malaysia, which is owned by the MoF's Investment, MKD (Inc) and Privatisation

Division), to a listed company with several subsidiaries (Malaysian Industrial Development Finance Bhd). The MoF's annual *Economic Report*, based on data from the central bank, provides a breakdown of the direction of lending by DFIs, but does not identify what fraction of DFI activity is policy-directed and hence quasi-fiscal in nature.¹⁰ Similarly, the annual reports of most DFIs do not comment on any non-commercial services that the government requires them to provide.¹¹

The annual *Economic Report* quantifies development expenditure via large non-financial public enterprises (NFPEs).¹² The document also identifies major development projects, integrated with commercial capital expenditure, of the major NFPEs: the national oil company Petroliaam Nasional Bhd (Petronas: 100% government-owned and unlisted, although some subsidiaries are listed), Tenaga Nasional Bhd (TNB: electricity, partially privatised and listed), Telekom Malaysia Bhd (TMB: telecommunications, partially privatised and listed), and Putrajaya Holdings Sendirian Bhd (developer of the new federal administrative capital). The economic agency Permodalan Nasional Bhd (PNB) has issued annual reports that detail its non-commercial quasi-fiscal activities.¹³

Government involvement in the private sector

In the early 1980s, Malaysia adopted the 'Malaysia Inc' model of close collaboration between the public and private sectors as a means of shifting from an agrarian resource-based economy to a diversified industrial one. Directly acquired private equity in companies and commercial banks has been a significant part of that model, which in addition seeks to create an adequate business environment. In 2004, the second minister of finance said that government involvement in the private sector was three-fold: as the developer and provider of public goods -- including law and order, and infrastructure and non-commercial services; as a regulator providing a level playing field; and as investor, where the government owns and operates the production of economic goods and services.¹⁴

The only government agency allowed to hold equities is the MoF's Investment, MKD (Inc) and Privatisation Division, also known as 'Minister of Finance Inc' (MoF Inc). Equities held in statutory bodies and companies (listed and non-listed) are identified in the *Public Accounts Statement of the Federal Government* with their declared book value.¹⁵

Khazanah Nasional Berhad, a company established in 1993 by MoF Inc to be the investment arm of the government, also holds equities. Based on company annual reports and data from the stock exchange and brokers, press reports in 2004 estimated the market value of the total MoF Inc and Khazanah holding of the top 40 listed companies; their joint holding amounted to 72% of individual government-linked companies (GLCs).¹⁶ Other public sector entities have been identified with substantial equity stakes, such as PNB, the Employees Provident Fund (EPF) and Petronas.¹⁷ Other public sector holders of GLC equities include Valuecap Sdn Bhd (a special vehicle company of which PNB is a joint owner), Khazanah, and Kumpulan Wang Amanah Pencen (a pension fund).

In May 2004, Prime Minister Abdullah announced a remaking of Malaysia Inc that would involve clarifying and changing the relations between the government and the GLCs.¹⁸ This process would transfer all equities held by MoF Inc to Khazanah. Khazanah would then apply performance indicators to the GLCs, install de-politicised and professional managers, and enforce a higher standard of corporate governance. The general goals for Khazanah, and the policy objectives served by its shareholdings, have gradually been made public. In July 2005, a transformation manual (Catalysing GLC Transformation to Advance Malaysia's Development) was launched as part of the 'GLC Transformation Programme', which includes strategies aimed at enhancing corporate governance, developing social leaders and clarifying social obligations to steer the GLCs. In addition, a transformation management office -- reporting directly to PM Abdullah Badawi and a Putrajaya Committee on GLC High Performance -- has been set up to ensure the success of the programme.¹⁹ The government expects GLCs to increase their investments and spending to make up for the shortfall arising from the government's move to cut its own expenditure and reduce the budget deficit.²⁰

Reorganisation of the GLCs is ongoing, with key performance indicators (KPIs) being gradually introduced, and appointments to key positions made in a transparent manner on a contract basis, with the objective of generating economic value. It is expected that by end-2005, an independent global standard of Corporate Governance Ratings will be introduced, with GLCs being the first group of companies subject to the rating system implemented by the Malaysian Institute of Corporate Governance.²¹

The EPF, an institution under the supervision of the MoF, manages employees' and employers' contributions to the retirement of employees. In the past, commentators have suggested that the EPF has been active in quasi-fiscal activities, but its annual reports do not identify such activities.²² Overall, EPF investment is based on risk-return profile, with the fund continuing to act as portfolio investor in buying and selling selected shares. EPF also continuously invests in Malaysian Government Securities (MGS) to obtain fixed returns and preserve the fund's value.²³ The EPF may reduce its equity stake in companies as part of a government plan to increase the free float of shares, making them more available to retail investors, according to a press report from its CEO.²⁴

The government has embraced a privatisation policy since 1983 and published a privatisation master plan in 1991; more than 450 privatised projects were operating in December 2003. The Economic Planning Unit of the Prime Minister's Department prepares a five-year plan for privatisation and undertakes a mid-term review of each plan. Privatisation is a part of the government's affirmative action goals: 30% of equity in a privatised entity must be allocated to *bumiputera* participants; and foreign participants are limited to 25%.²⁵ Some commentators have highlighted that the affirmative action system should be reformulated since it is common practice that *bumiputera* shareholders sell their equity stake; this continuous 'leakage' thus makes the 30% target unsustainable.²⁶

There should be a clear legal and administrative framework for fiscal management

Legal framework for budgetary activities

Article 99 of the constitution sets out the general framework for budgetary activities; it is complemented by Section 6 of the Financial Procedures Act (1957), Sections 2 and 3 of the Development Fund Act (1966), and Treasury Instructions governing the planning, programming, execution and reporting of the budget. In particular, Treasury Instructions 7 and 13 provide for oversight and control of the expenditure of federal funds through three stages: formulation, presentation and approval by the Treasury; implementation or administration of a programme/project; and auditing and reporting. The Treasury's budget preparation and examination process has now been converted into a (non-zero-based) two-year process, with annual budgets to be submitted to parliament every year as mandated by the constitution and the Financial Procedures Act (1957). The long gestation periods of development projects have been one of the main factors behind the shift to two-year budget planning.

Legal framework for taxation

Under Article 94 of the constitution, all taxes or rates must be levied under the authority of federal law. Tax laws and regulations are easily accessible and understandable. Direct tax laws include the Income Tax Act (1967), the Real Property Gains Tax Act (1976), the Stamp Act (1949), the Petroleum (Income Tax) Act (1967, as amended 1976), and the Labuan Offshore Business Activity Tax Act (1990). Indirect tax laws include the Customs Act (1967), the Sales Tax Act (1972), the Excise Act (1976), the Services Tax Act (1975) and the Entertainment Duty Act (1953). Information on the tax system and tax incentives for investors are published in the *Economic Report* and on the Treasury's website.²⁷

The Inland Revenue Board (IRB) was formed in 1996 to administer the direct tax laws, replacing the former Department of Inland Revenue, with a view to greater autonomy and efficiency in tax administration. A Self

Assessment System is in effect. Direct tax laws, regulations, rulings, guidelines and forms are available on the IRB's website.²⁸ Tax decisions can be appealed to the Special Tax Commissioner and then to the High Court.

Petroleum is a major revenue source for the Malaysian government. Malaysian states have some limited tax powers over land and natural resources, but the majority of taxing power lies with the central government. Local governments can also obtain revenues from three main sources, as established in Part 5 of Section 39 of the Local Government Act (1976): rents and fees for services, grants/subsidies given by the central or state government (inter-governmental fiscal transfers) and local taxation. State governments supervise the locally raised taxes.

Ethical standards for public servants

Ethical standards of behaviour for public servants are provided in Public Officers (Conduct and Discipline) Regulations of 1993, which replaced the Public Officers (Conduct and Discipline) General Orders (1980). Additional provisions are stipulated in the Prevention of Corruption Act (1957), the Anti-Corruption Act (1997), and service circulars issued by the Public Service Department.

The Anti-Corruption Agency of Malaysia (ACA) started operations in 1963. It is part of the Prime Minister's Department and is headed by a director-general who is appointed by the Yang di-Pertuan Agong on the advice of the prime minister. The Anti-Corruption Act (1997), a definition of gratification, and a description of corruption offences are available on the ACA website.²⁹

The necessary supporting environment for ethical standards is gradually being put in place. In late 2003, a deputy minister in the Prime Minister's Department, M. Kayveas, said corruption had become a culture and was a method used to resolve problems.³⁰ In early 2004, the prime minister launched a five-year National Integrity Plan with the aim of reducing corruption, irregularities and abuse of power as a target for 2004-08.³¹ The plan included the establishment of the Integrity Institute of Malaysia (IIM) to ensure that the planning, implementation, coordination, monitoring and evaluation related to the implementation of the National Integrity Plan are carried out. The IIM attempts to create spaces for citizens concerned about the level of corruption, and to promote of transparency and integrity.

In the past, commentators have noted that the public perceived the process for lodging complaints with the head of a government department, the Public Complaints Bureau, and the ACA as ineffective.³² The ACA has increased efforts to be perceived as an impartial institution, for example by tracking the number of prosecutions and convictions in each year, and allowing citizens to lodge complaints on its website.³³ Nevertheless, some commentators have underscored that the ACA must be restructured to make it independent of the executive arm of the government, while its director general should be provided with security of tenure similar to that of judges and the auditor general.³⁴

2. PUBLIC AVAILABILITY OF INFORMATION



Compliance in progress

The public should be provided with full information on the past, current, and projected fiscal activity of government.

Central government operations

Data on central government operations are disseminated on a monthly basis, within four weeks of the reference month, in the central bank's *Monthly Statistical Bulletin*.³⁵ Data cover the financial position of all federal government units, but not social security organisations (which are small, covering only injuries at work) or statutory bodies. They include revenues, expenditures, the deficit/surplus balance, and borrowings broken down into domestic financing (bank and non-bank) and foreign financing. The data are recorded on a cash basis and their source is the government accounting records of actual outturns.

Data on central government operations are also disseminated on a quarterly basis and within three months of the end of the reference quarter in the Treasury's *Economic Quarterly Updates*.³⁶ The data cover budgetary accounts, including revenue (direct and indirect tax receipts and excise and export duties), expenditure (operating and development), the deficit, and borrowings (federal government debt, recoverable loans, issues of Malaysia Government Securities and Government Investment Issues, and external debt). The Treasury website holds *Economic Quarterly Updates* dating back to the third quarter 2003.

The MoF's annual *Economic Report*, issued in September to accompany the budget speech, reports federal government revenue disaggregated by type, operating expenditure disaggregated by object and sector, development expenditure disaggregated by sector, and debt disaggregated by type.³⁷

Public sector operations

The *Economic Report* gives summary information on the consolidated financial position of state governments, the consolidated general government financial position (federal government, state governments, local authorities and statutory bodies), the financial position of NFPEs, and the consolidated public sector financial position.³⁸ The source data are obtained from the office of the Accountant General or the accounting office of the respective units of government or from the NFPEs.

The report also includes the expected revenue figures for the current and following year, and revenue figures for the previous year. Summary data on the fiscal position of the consolidated state governments, local authorities, statutory bodies and large NFPEs, for the current year and previous four years, are also published.³⁹

The annual budget does not cover quasi-fiscal activities (QFAs) of public financial institutions, the EPF, and other public enterprises. QFAs are not open to substantial public scrutiny; identifying and quantifying QFAs thus depends critically on high-quality reporting from the DFIs and NFPEs themselves. Commentators have said that such reporting is usually not readily available, but the new Transformation Manual address these shortcomings since GLCs are expected to report on their social obligations, and thus provide more detailed information on quasi-fiscal activities.⁴⁰

A commitment should be made to the timely publication of fiscal information.

Debt reporting

In accordance with its commitments to the IMF's Special Data Dissemination Standard (SDDS), and in compliance with the provisions of the Financial Procedures Act (1957), the Malaysian government releases monthly data on central government debt broken down into domestic currency debt and foreign debt, debt guaranteed by the government, and maturities. Foreign debt is disaggregated by the issuing currency.⁴¹

Since the 1997-98 Asian financial crisis, the central bank has adopted the practice of releasing the coverage ratio between total external short-term debt and its gross international reserves. The BNM's *Annual Report* discloses the composition of central government debt and financial assets, while the *Economic Report* provides summary information of public and total external debt. State governments are not permitted to issue debt; deficits are financed by federal government grants and the use of accumulated financial assets of state governments. This information is compiled in the *Public Accounts Statement of the Federal Government*, and audited by the National Audit Department. Some commentators have highlighted the paucity of data on the financial status of the states' economic development corporations and the lack of remedial action against state governments that have failed to repay loans owed to the federal government.⁴²

The Memorandum Accounts Statement of the *Public Accounts Statement of the Federal Government* includes accounts that reflect the government's assets and liabilities that are not shown in the balance sheet. The assets portion consists of recoverable loans, investments, fees to international bodies and time deposits, whereas the liabilities portion consists of public debts, guarantees, notes payable, unclaimed shares accounts and the central depository accounts.

Advance release calendars

Advance release calendars giving at least one-quarter advance notice of their precise release dates for the fiscal sector are available on the website of the central bank and, for the national accounts, the website of the Department of Statistics.⁴³ The IMF's SDDS website announces exact release dates one week in advance of the release.⁴⁴

3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

●●●● Compliance in progress

Fiscal policy objectives, macroeconomic framework, and risks

Fiscal policy objectives

Three major publications define a framework of fiscal policy objectives within which annual budget proposals are made. *Vision 2020* (published by the Prime Minister's Department) sets 2020 as a deadline for Malaysia to become a fully developed country.⁴⁵ An *Outline Perspective Plan*, for example the *Third Outline Perspective Plan 2001-2010* (published by the Economic Planning Unit of the Prime Minister's Department in 2001), marks each ten-year phase of the journey to accomplish *Vision 2020*.⁴⁶ A five-year *Malaysia Plan*, for example the *Eighth Malaysia Plan 2001-2005*, provides more detailed projections and guidance for annual budgets.⁴⁷ The Malaysia Plans are subject to a mid-term review: the *Eighth Malaysia Plan* was reviewed on 30 October 2003.⁴⁸

The minister of finance makes an annual speech (the budget speech) to accompany the supply bill, usually in September. The budget speech briefly reviews macroeconomic performance in the year to date and then details new policy thrusts, proposes the government's allocation for operating and development expenditure, and highlights macroeconomic assumptions for the forthcoming calendar year.⁴⁹ The minister also releases the *Economic Report* with comprehensive quantitative background for the *Budget Speech*.

Macroeconomic framework

The annual budget is prepared and presented within the broad macroeconomic framework provided by the current development plans, the *Outline Perspective Plan* and the *Malaysia Plan*. Macroeconomic assumptions are provided in the *Economic Report*. The MoF uses a quantitative macroeconomic model as part of its budget calculations, but it does not disclose the equations or identities of the model.⁵⁰

Fiscal risks

Fiscal risks are not explicitly identified in the budget speech or the accompanying *Economic Report*. Possible variations in key forecasting assumptions are not addressed. The outlook for increased total federal government debt and additional loans to state governments in deficit is identified and quantified in the *Economic Report*. The exposure to future interest rate hikes on domestic and external government debt has been assessed in qualitative terms.⁵¹ In 2005, the total cost stemming from the subsidies in petrol prices for 2001-05 have been made available to the public.⁵²

Fiscal sustainability

The government is committed to a "gradual and progressive reduction of the federal government deficit without constraining overall economic growth".⁵³ The federal government expects no new external borrowings but does expect expanded domestic borrowing, including by GLCs under Khazanah's oversight, to redeem existing debt and to fund development expenditure. The Treasury has reports on projected debt-service payments on loans committed (available upon request) that include guaranteed and non-guaranteed payments by NFPEs. However, some commentators judge that these reports would benefit from scenarios that test medium-term fiscal sustainability under

a set of different assumption, including new debt guarantees to Khazanah's GLCs -- especially since many of these companies plan to raise funds in order to finance their expansion outside Malaysia.⁵⁴

The primary domestic and external debt balances of the federal government are stated in the *Economic Report*, with the latter balance disaggregated into its major currencies. Figures for the national debt and the financial positions of the consolidated state governments, consolidated general government, consolidated NFPEs, and consolidated public sector, are also given. The debt servicing capacities of the federal government (for example, the debt service ratio to government revenue) and of the national external debt (such as the external debt service ratio to exports of goods and services) are stated.⁵⁵

The 2005 budget speech included a review of the tax system and foreshadowed the introduction in 2007 of a single consumption tax, a Goods and Services Tax (GST), based on the value-added concept.⁵⁶ The 2005 and 2006 budgets speeches did not link the GST to the deficit reduction plan, but the government expects that the ability of the GST to fix tax leakages will indirectly help reduce the budget deficit.⁵⁷

Budget presentation

Data reporting

Malaysia meets the IMF's SDDS for coverage, periodicity, and timeliness of central government data and public sector data, although it has opted for a flexibility option for reporting non-financial public sector data, expanding the reporting period to ten months. For consolidated central and state-level fiscal data, annual reports are provided within six months of the end of the financial year. Data on central government activities are produced monthly within one month, but lack any ministerial comment or comparisons with budget projections. The *Economic Report* gives summary information of operating expenditures, development expenditures, revenues, and the financial position of state governments and non-financial public enterprises. Data on public financial institutions (the DFIs) are not available.

The budget speech does not comment on contingent liabilities that may arise from external and domestic loan guarantees made by the government to statutory bodies and GLCs, although these are disclosed in the Memorandum Accounts Statement of the *Public Accounts Statement of the Federal Government*.⁵⁸ The Auditor General's report comments on contingent liabilities that may arise, for example, from performance contracts (guarantees of revenue) on Build-Operate-Transfer (BOT) schemes. The Treasury registers these type of liabilities when the guaranteed performance indicators are not achieved, as in the cases of the Seremban-Port Dickson toll highway, the Putra and Star light rail systems, the National Sewerage System, and Ekran's contract for the delayed Bakun Dam project.⁵⁹

Since 1997, guarantees for bank deposits, the government's re-nationalisation programme, and the declining returns of many government-run investment funds have all contributed to the growth in contingent liabilities. As part of its monthly reporting of gross international reserves, the central bank includes the amount of contingent liabilities denominated in foreign currency and their maturities.⁶⁰ Additional information in budget papers -- such as a statement of the policy purpose of each provision that may give rise to a contingent liability, the duration of guarantees, and the intended beneficiaries -- would enhance transparency in budget documentation, especially since contingent liabilities are difficult to recognise under the cash accounting currently used by the government.

Budget execution and monitoring

The Financial Procedure Act (1957) provides for the control and management of the public finances and for financial and accounting procedures, including the collection, custody and payment of the public moneys of the federation and

of the states, and the purchase, custody and disposal of public property (other than land) of the federation and states. Financial and accounting procedures are further explained and expanded in the Treasury Instructions -- a compendium of detailed rules and regulations for the guidance and compliance of all public officers.

The Treasury distributes a call-circular to all ministries, as the basic framework and guidelines to prepare and plan their annual budgeting expenses. After all the ministries and statutory bodies have prepared and submitted their programme and performance budget estimates, the Treasury (Budget Division) will carry out the Budget Screening Process. Every estimate submitted will be screened to make sure their respective application benefits to the economic growth and the improvement of national economic resilience. Once satisfied with the final amendments, the Treasury will then present the Supply Bill together with the *Programme and Performance Budget Estimate Book* to the parliament for approval. It includes the classification code for the expenditure by purpose of expenditure, controlling officer, programme, activity and object of expenditure. The book also provides details on activity performance of each agency and statutory body.

Control over expenditure is exercised initially at the agency level. The controlling officer in the respective agencies is responsible to monitor their expenses. All ministries and agencies are required to record details of all expenditures incurred and commitments made on a daily basis and submit to the Treasury (Budget Division) their quarterly reports on the status of both the operating and development budgets. The Prime Minister's Department monitors the execution of the development expenditure to obtain information on development projects in terms of physical and financial progress. The formation of a task force to monitor projects under performance targets has improved substantially the effectiveness of budgetary implementation.⁶¹

Accounting basis

The responsibility for financial and accounting procedures is vested in the minister of finance. It is the duty of the Treasury and the Accountant General Office to issue instructions and directions on accounting matters and procedures, to ensure that a proper system of accounts is established, and that procedures comply with generally accepted accounting principles and standards. The Accountant General Office is the principal accountant in the government and head of the accounts division of the Treasury, with authority in matters of accounting procedures over the accounts of the federal and state governments.⁶²

Central government and the majority of state government data are based on the accounting records of actual outturns; this is so because the consolidated fund by law operates as a cash account. Central government reports, tabled annually in parliament, are compiled using a modified cash accounting method, thus allowing one month for outstanding bills to be settled. Monthly central government reports are also prepared for internal circulation. The Treasury is in the early stages of shifting to a modified accrual accounting basis (there is no time frame for this change).

Government accounts presented to parliament go through two stages of external audit. The National Audit Department ensures that the accounts follow proper accounting principles. The parliamentary Public Accounts Committee (PAC) then scrutinises the auditor general's reports, having expanded its brief from examining compliance with financial and accounting standards to also looking at actual performance, increasing parliamentary oversight.⁶³

Procurement and employment

Individual federal government ministries conduct their own procurement according to centralised regulations and procedures. The Government Contract Act (1949) provides legal validity for the ministries to represent the government in procurement contracts. Procurement principles and policies, including those procurement policies that support the government's objectives of stimulating local industry and businesses run by *bumiputera*, are publicly

available.⁶⁴ Current guidelines, including Treasury Circular Letters that govern the tender process, are available on the Treasury's website.⁶⁵

An e-procurement system (ePerolehan) is being introduced in four phases from 2000-07, to reduce bidding costs and to make the process more efficient and transparent. More than 2,000 of the 3,500 Responsibility Centres, structures formed under the Program and Performance Budgeting System, had been equipped with e-procurement modules by late 2004 and more than 45,000 registered suppliers were active in the system.⁶⁶ Tenders are also announced on the Malaysian Administration Modernisation and Management Unit website.⁶⁷

In January 2004, Prime Minister Abdullah announced that open tenders would be the norm when awarding government contracts and that negotiated tenders would only be followed in special cases.⁶⁸ The second minister of finance later clarified that contracts would be awarded on an open tender basis while certain tenders would only be opened among *bumiputera* companies to compete.⁶⁹ Some commentators and the press have highlighted a number of contracts awarded without open tender, in contrast to a very few large contracts awarded through open tenders.⁷⁰ Commentators have also noted that, in the past, certain firms were registered and accepted as preferred suppliers/contractors circumventing procurement regulations.⁷¹

The Public Service Department formulates uniform personnel management policies and procedures for the entire public sector. The Public Service Commission is the appointing authority for the federal civil service. Information on recruitment, training, examination, and the New Remuneration System, and relevant application forms, are available on the websites maintained by the two agencies.⁷²

Fiscal reporting

Section 16(1) of the Financial Procedures Act (1957) requires the Federal Financial Authority to prepare an 'annual accounts statement' immediately after the closing of accounts of that particular year. The statement is to be submitted to the National Audit Department for audit within seven months from the closing date of the financial year as required under Section 9(1) of the Audit Act (1957). The *Public Accounts Statement of the Federal Government* is prepared yearly by the Accountant General Office, on behalf of the Federal Financial Authority, to be audited by the National Audit Department. The Auditor General's reports are tabled in Parliament and thereafter discussed by the PAC.⁷³

The public account statement consists of the Balance Sheet, Memorandum Accounts Statement and Notes to the Accounts. The Balance Sheet shows the total cash and investments held by the three consolidated accounts (the Consolidated Revenue Account, Consolidated Trusts Account and Consolidated Loan Account). In compliance with the cash basis of accounting adopted by the federal government, investments held for the purpose of specific trusts are shown in the Balance Sheet. Other forms of investments, including government assets and liabilities that are not shown in the Balance Sheet, are reflected in the Memorandum Accounts Statement.

The Treasury publishes the annual *Programme and Performance Budget Estimates Book* at the end of the budget-making process. This internally distributed book provides the detailed figures, projections, and identification of performance outputs that support the actual budget tabled in parliament. Results of major budget objectives are routinely presented to parliament as a matter of tradition or as a result of questions raised by sitting members. There is no legal requirement for the Treasury to provide mid-year budget updates to parliament, and no routine updates are normally given.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

●●●● Compliance in progress

Data quality standards

Central government and general government data (of the non-financial public sector) are compiled under the provisions of the Financial Procedures Act (1957); the Companies Act (1965) governs the procedures for NFPEs data. Information on the methodology, sources of the data and revisions is given in the notes to the *Public Accounts Statement of the Federal Government*. Fiscal data meet the IMF's SDDS and are reported on a cash basis in ringgit. The Treasury's Accountant General Department, the central bank, and the Department of Statistics verify the internal consistency of fiscal information. Financial accountability at departmental levels rests with the controlling officers and the internal audit units. In addition, the Implementation and Coordination Unit of the Prime Minister's Department and the Treasury monitor and evaluate budget programmes to regulate and supervise the progress of activities and to obtain input for succeeding years and plans.⁷⁴ The Accountant General Office requests financial and budgetary performance reports from several departments and ministries, which are then incorporated into the public accounts for each fiscal year.

Independent scrutiny of fiscal information

Independent audit

The National Audit Department (Jabatan Audit Negara Malaysia) -- headed by the auditor general and independent of the executive government -- is the main auditing body for the central government, state governments, statutory bodies, local authorities, and the Islamic Religious Council. Articles 105-107 of the Malaysian Constitution and the Audit Act of 1957 stipulate the responsibilities of the auditor general, who has legal protection from political interference similar to that of the federal judges.⁷⁵ The National Audit Department prepares the *Auditor General's Report on the Public Accounts Statement and Activities of the Federal Government Ministries, Departments And Agencies* for each fiscal year.⁷⁶ The document includes audits of federal government accounts and it also reports on deficiencies in budget implementation, improper payments and authorisations, inadequate record-keeping and weak internal systems and controls. The auditor general has no direct responsibility for monitoring budget outcomes or the existing management information systems; these are the responsibilities of the controlling officers and the central agencies.

The Yang di-Pertuan Agong appoints the auditor general on the advice of the prime minister after consultations with the Conference of Rulers.⁷⁷ The auditor general submits relevant reports to the Yang di-Pertuan Agong or head of the relevant state, who then submits it to the legislative assembly. Apart from the annual audit reports to both central government and each state government, the auditor general has the right to submit supplementary reports to parliament pursuant to his responsibilities at any other time of the year. The expenditure of all federal government departments and agencies is required to be audited annually. Some commentators noted that in 2005 two ministries failed to submit supporting documents of their financial accounts to the auditor general.⁷⁸

The PAC is a select committee of parliament appointed to examine the accounts of the federal government, the appropriation of the sums granted by parliament to meet public expenditure, and the reports of the auditor general. The PAC's role and responsibilities relate to examining accounting and financial matters, and to issues raised in the

auditor general's reports. Some commentators judge that the PAC should be more involved in monitoring budget performance (by requesting information on operating, development or accounting programmes) and requesting and/or following up on any remedial action taken by the ACA or the Office of the Attorney General (Jabatan Peguam Negara Malaysia). Nonetheless, the MoF, in its role as a central agency, monitors budget performance and works closely with the Auditor General, Accountant General and the PAC on issues related to government financial matters.⁷⁹

National Statistics Agency

The main duties of the Department of Statistics (DOSM)⁸⁰ involve gathering and releasing government data, particularly macroeconomic information such as supply, demand, trade, inflation and other social/demographic figures. The gathering and reporting of fiscal data is mainly the task of the Accountant General Office, the BNM and the Treasury. All statistics collected and published by the DOSM are governed by the Statistics Act 1965 (revised 1989), which grants the DOSM independence to determine data coverage, contents, methodology and periodicity.⁸¹

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Malaysia between 7 and 10 November 2005:

Ministry of Finance

10 November 2005

Yeo Heng Hau	Deputy Secretary	Economic and International Division
Chua Tong Ka	Head Fiscal Section	Economic and International Division
Mohd. Reezal bin Ahmad		Economic and International Division
Ahmad Fareedzal bin Abu Bakar		Economic and International Division
Nik Mohd. Shariffudin Nik Hassan		Economic and International Division
Fauziah binti Yaacob		Budget Management Division
Noor Aliza binti Mohd. Shaffi		Budget Management Division
Kong Hee Eng		Financial Management Advisory Division
Ismail bin Hj Bakar		Government Procurement Division
Ahmad Fauzi bin Sungip		Government Procurement Division
Mohd. Azmi Mazid Mohd. Yazid		MoF (Inc) and Privatisation Division
Isma Juwana Ab. Aziz		Monitoring and Control Division
Ooi Eng Chor		Monitoring and Control Division
Khodijah Bt. Abdullah		Tax Analysis Division

Economic Planning Unit, Prime Minister's Department

Yap Siew Hong	Director	Macroeconomics Section
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Bank Negara Malaysia

9 November 2005

Sukhdave Singh	Director	Monetary Assessment and Strategy Dept.
Thomas Koon Peng Tan	Manager	Monetary Assessment and Strategy Dept.

ADDITIONAL INTERVIEWS

7 November 2005

Dato' Param Cumaraswamy	President	Transparency International Malaysia
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8 November 2005

R. Thillainathan	Executive Director and COO	Genting Corporation
Azidin Wan Abd. Kadir	Research Fellow	Malaysian Institute of Economic Research

NOTES

¹ See the Malaysian constitution (non-official translation) at:

<http://www.helpinelaw.com/law/constitution/malaysia/malaysia01.php>

² See Ministry of Housing and Local Government at:

³ Accounts of NFPEs financial position for fiscal years 2004 and 2005 include 30 NFPEs. See *Economic Report 2005/2006* Statistical Table 4.13, p. xxxix at:

www.treasury.gov.my/index.php?ch=22&pg=165&ac=1402&lang=eng

⁴ For example, from 1981 to October 2003, Dr Mahathir Mohamad was prime minister and UMNO president. In 2001-03, he was also appointed minister of finance and treasurer of UMNO. In addition, a United Nations special rapporteur has noted that the judiciary has not recovered its independence since six Supreme Court judges were suspended, and three subsequently removed, in 1988. The suspension and removal of the judges followed a court case that arose after Dr Mahathir's then deputy, Tengku Razaleigh Hamzah, failed in a leadership challenge in 1987. Several court cases followed, including one in which a judge ruled that UMNO was unlawful; UMNO then split into UNMO Baru, led by Dr Mahathir, and Semangat 46, led by Tengku Razaleigh. "In the aftermath of the court cases related to UMNO, three judges were sacked, including the chief justice." See 'The Mahathir Era', *The Edge*, 3 November 2003 and Param Cumaraswamy, 'Injustice for all', *Far Eastern Economic Review*, 8 October 2003, p. 26.

⁵ 'Prime Minister Datuk Seri Abdullah Ahmad Badawi tabling a motion of thanks to the Member of Parliament for Kubang Pasu, Tun Dr Mahathir Mohamad', *The Star*, 4 November 2003, p. 23.

⁶ Interviews in Malaysia, 7-10 November 2005.

⁷ See Expenditure Budget Formulation Process: www.treasury.gov.my/index.php?ch=12&pg=32&ac=713&lang=eng

⁸ Interviews in Malaysia, 21-23 October 2003.

⁹ Interviews in Malaysia, 27 September – 1 October 2004. See IMF Public Information Notice No. 04/27 (24 March 2004), 'IMF Concludes 2003 Article IV Consultation with Malaysia' at:

www.imf.org/external/np/sec/pn/2004/pn0427.htm

¹⁰ Interviews in Malaysia, 27 September – 1 October 2004. It is reported that by end-2004, DFIs borrowed RM17.57 billion from the government, while making loans of RM37.78 billion to the priority development sectors. See *Economic Report 2005/2006* (Ministry of Finance, 2005), p. 86 at:

www.treasury.gov.my/index.php?ch=22&pg=165&ac=1402&lang=eng

¹¹ Bank Industri's *Assessment of Developmental Impact 1978-1998*, (www.bankindustri.com.my/bankindustri-20years.pdf) provides a qualitative account of its government-directed achievements; see also the annual reports of Bank Industri (www.bankindustri.com.my/publications.html); Exim Bank (www.exim.com.my/reports.asp); and MIDF (www.midf.com.my/index.php?ch=29&pg=153).

¹² In 2004, development expenditure by NFPEs was RM24.6 billion (cf. RM31.9 billion development expenditure by general government). See *Economic Report 2005/2006*, pp. 70-71 and Table 4.13, p. xxxix at:

www.treasury.gov.my/index.php?ch=22&pg=165&ac=1402&lang=eng

¹³ PNB operates a fund, partly derived from the profit on investments originally derived from an interest-free loan from the government, which financially assists the schooling of poor *bumiputera* individuals. See PNB annual reports at: www.pnb.com.my/about/about_us_report.cfm?cat=1

¹⁴ Nor Mahomed Yakcop, in 'Malaysia Inc. two way street', *The Star*, 12 June 2004, StarBiz p. 4.

¹⁵ See 'Statement of Memorandum of Investments as at 31 December 2004', in Accountant General, *Federal Public Accounts 2004* (Ministry of Finance: 2005).

¹⁶ These accounted for 34% of the total Malaysian sharemarket capitalisation, equivalent to RM232 billion or 50% of GDP. See 'Government sets regional goal for Khazanah', *The Star*, 15 May 2004, StarBiz p. 1.

¹⁷ For equities held by Khazanah Nasional Bhd., see 'Khazanah may appoint independent consultants', *The Star* 20 April 2003, StarBiz pp. 1, 3; for equities held by Khazanan, MoF Inc and Bank Negara Malaysia, and for Permodalan Nasional Bhd., Employee's Provident Fund, and Petronas, see 'Council on governance formed', *The Star* 15 May 2004, StarBiz p. 2.

¹⁸ 'Remake for M'sia Inc', *The Star*, 15 May 2004, pp. 1-2.

¹⁹ See Secretariat Presentation of the Putrajaya Committee on GLC High Performance, 29 July 2005 at:

www.khazanah.com.my/pdf/PCG_Secretariat_29Jul05.pdf

²⁰ Interviews in Malaysia, 7-10 November 2005.

²¹ See Malaysian Institute of Corporate Governance at: www.micg.net

²² Interviews in Malaysia, 21-23 October 2003. EPF annual reports are at: www.kwsp.gov.my/index.php?ch=106

- ²³ Interviews in Malaysia, 7-10 November 2005. The percentage of EPF funds invested in MGS has not changed significantly, i.e. 39% in 2004 and 38.1% during the first-half of 2005. Coupon rates of MGS received by EPF are based on current market prices.
- ²⁴ 'EPF may reduce stakes in firms', *The Star*, 5 August 2004, StarBiz p. 1.
- ²⁵ See www.epu.jpm.my/New%20Folder/source/WEBSWASTA1.doc
- ²⁶ Interviews in Malaysia, 7-10 November 2005.
- ²⁷ See *Economic Report 2005/2006*, and www.treasury.gov.my/index.php?ch=15&lang=eng
- ²⁸ See the website of the IRB at: www.hasilnet.org.my in Malay and English.
- ²⁹ See www.bpr.gov.my/English/acamain.html
- ³⁰ Interviews in Malaysia, 27 September – 1 October 2004. See 'Graft pervading society, says Kayveas', *The Star*, 27 October 2003, p. 28.
- ³¹ 'NIP the rot', *The Star*, 24 April 2004, pp. 1, 4.
- ³² Interviews in Malaysia, 21-23 October 2003; Interviews in Malaysia, 27 September - 1 October 2004. Paul, Pereira, and Raj, *National Integrity Systems Country Study: Malaysia*, p. 51; Tunku Abdul Aziz, 'Give ACA independent status', *The Sun*, 9-10 October 2004, p. 16.
- ³³ See www.bpr.gov.my/English/inform.htm
- ³⁴ Interviews in Malaysia, 7-10 November 2005.
- ³⁵ See www.bnm.gov.my/index.php?ch=12
- ³⁶ See *Economic Quarterly Updates* at: www.treasury.gov.my/index.php?ch=22&pg=77&lang=eng
- ³⁷ The *Economic Reports* at: www.treasury.gov.my/index.php?ch=22&lang=eng.
- ³⁸ *Economic Report 2005/2006*, pp. 59-71.
- ³⁹ *Economic Report 2005/2006*, pp. xxxvi-xxxix.
- ⁴⁰ Interviews in Malaysia, 7-10 November 2005. See 'Remaking Khazanah and the GLCs – A strategic framework', March 2005 at: www.khazanah.com.my/pdf/InfoDeck_KhazanahMar05.pdf
- ⁴¹ See sections VII.5 - 7 of the Monthly Statistical Bulletin on the Bank Negara website at: www.bnm.gov.my/index.php?ch=109&pg=294&mth=9&yr=2005
- ⁴² Interviews in Malaysia, 7-10 November 2005. The 'Auditor General's 2004 Report on the Public Accounts Statement and Activities of the Federal Government Ministries, Departments and Agencies' found that state governments failed to repay loans to the federal government, equivalent to RM 12.8 billion in fiscal year 2004. In addition, it reports that the Federal Treasury is guarantor of loans taken by nine GLCs, equivalent to RM47.5 billion.
- ⁴³ See www.bnm.gov.my/index.php?ch=169 and www.statistics.gov.my/english/frameset_calendars.php?file=advcal
- ⁴⁴ See <http://dsbb.imf.org/Applications/web/sddsmonitor7d/>
- ⁴⁵ See www.pmo.gov.my/website/webdb.nsf/vALLDOC/BA7051FF90767AD848256E84003129CA
- ⁴⁶ See [www.epu.jpm.my/New%20Folder/development%20plan%20plan%203rd%20outline\(b\).htm](http://www.epu.jpm.my/New%20Folder/development%20plan%20plan%203rd%20outline(b).htm)
- ⁴⁷ See www.epu.jpm.my/New%20Folder/development%20plan/RM8.htm
- ⁴⁸ See www.epu.jpm.my/New%20Folder/development%20plan/midterm-RM8.htm
- ⁴⁹ See for example, *The 2006 Budget* at: www.treasury.gov.my/index.php?ch=12&pg=149&ac=1383&lang=eng
- ⁵⁰ Interviews in Malaysia 27 September – 1 October 2004.
- ⁵¹ *Economic Report 2004/2005*, pp. 107-09.
- ⁵² See Table 5 in 'Oil Prices and Subsidies – An Explanation', 31 July 2005, at: www.epu.jpm.my/New%20Folder/Oil%20Prices%20and%20Subsidies%20-%20An%20Explanation.pdf
- ⁵³ *Economic Report 2004/2005*, p. 2.
- ⁵⁴ Interviews in Malaysia, 7-10 November 2005.
- ⁵⁵ *Economic Report 2005/2006*, pp. 66-73.
- ⁵⁶ See information on GST at: www.neac.gov.my/index.php?ch=62&pg=142
- ⁵⁷ Interviews in Malaysia, 7-10 November 2005.
- ⁵⁸ See 'Statement of Memoranda of Guarantees as at 31 December 2004', *Federal Public Accounts 2004*.
- ⁵⁹ Interviews in Malaysia, 27 September – 1 October 2004. See also Table 17 - Malaysia: Outstanding Public Sector Debt 1999–2004 in 'Malaysia: Statistical Appendix', March 2005, p. 20 at: www.imf.org/external/pubs/ft/scr/2005/cr05102.pdf
- ⁶⁰ See www.bnm.gov.my/index.php?ch=12&pg=293
- ⁶¹ Interviews in Malaysia, 7-10 November 2005.
- ⁶² See for example 'Accounting code for Financial Year 2006' (in Bahasa Malaysia only) at: www.anm.gov.my/kod%20ak%20thn%20kewangan%202006.pdf
- ⁶³ See the flow diagram at: www.anm.gov.my/Eng_Accounting/indexpublicacc.html

⁶⁴ See *Buku Panduan Perolehan Kerajaan* (Ministry of Finance, 1997).

⁶⁵ See <http://www.treasury.gov.my/index.php?ch=63&lang=eng>

⁶⁶ Interviews in Malaysia 27 September – 1 October 2004; ‘D-G: Govt to introduce e-procurement’, *The Star*, 33 December 2003, p. 18. See the e-Procurement portal at: <http://home.eperolehan.com.my/bm/default.aspx>. The procurement process is described, in English, at the APEC Government Procurement Experts’ Group website at: www.apec.org/content/apec/apec_groups/committees/committee_on_trade/government_procurement/resources/malaysia.html

⁶⁷ See http://mcs1.mampu.gov.my/english/tender_ann.htm

⁶⁸ These cases are described in Treasury Directive Letter of 17 April 2002, and involve instances where the contract involves strategic expenditure, public orders, when there is a single supplier or depending on when the complexity of the project calls for direct negotiations.

⁶⁹ A *bumiputera* company is defined according to equity participation; that is when at least 51% of total equity is held by *bumiputera*. This is to encourage partnership practices by enhancing *bumiputera* participation in the economy. See also ‘PM: Most govt contracts will be through open tenders’, *The Star*, 14 January 2004, pp. 1-2 and ‘Is open tender being practised?’, *The Edge*, 18 October 2004, p. 86.

⁷⁰ Interviews in Malaysia, 27 September – 1 October 2004. Large contracts identified as having been awarded without open tender included: the construction of a RM60 million district police headquarters in Ipoh; 30% of the construction of the East Coast Expressway II project awarded to MTD Capital (70% was to be tendered out, openly, to *bumiputera* contractors); and construction of a RM648 million sewerage works in Penang. See also ‘Is open tender being practised?’, *The Edge*, 18 October 2004, p. 86; P. Gunasegaram, ‘What happened to open tenders and bids?’, *The Edge*, 26 April 2004, pp. 49, 52.

⁷¹ For example, in November 2004 it was reported that a group of contractors known as the Project Management Consultant (PMC) consortium were awarded several contracts through limited tender or direct negotiations, allegedly because of the need for expedite completion of the projects. It was reported that the PMC charged a fixed consultancy fee at 1.5% of project cost, contributing to substantial cost overruns and project failures. On 29 November 2004, the opposition leader Lim Kit Siang called on the government to present a White Paper on all projects handled by the PMC.

⁷² See the Public Service Department at: www.jpa.gov.my; the Public Service Commission at: www.spa.gov.my; and job vacancies advertised on the Malaysia Civil Service Link of the Malaysian Administration Modernisation and Management Unit at: <http://mcs1.mampu.gov.my/>

⁷³ See the flow diagram at: www.anm.gov.my/Eng_Accounting/indexpublicacc.html

⁷⁴ Interviews in Malaysia, 7-10 November 2005.

⁷⁵ See the Enabling Legislation, including Articles 105-107 of the Constitution and the Audit Act (1957) on the website of the National Audit Department at: www.audit.gov.my/audit/index.htm

⁷⁶ The latest Auditor General’s Report for fiscal year 2004 is available (in Bahasa Malaysia only) at: www.audit.gov.my/Lap_Fed2004.html

⁷⁷ Constitution of Malaysia, Article 105.

⁷⁸ Interviews in Malaysia, 7-10 November 2005. Two ministries -- Entrepreneur and Cooperative Development, and Federal Territories -- failed to submit in time their 2nd Accounts Receivable Report as at 31 December 2004, although all ministries were required to do so by year-end. See ‘Auditor General’s Report on the Public Accounts Statement and Activities of the Federal Government Ministries, Departments and Agencies -- Fiscal Year 2004’ and ‘Bulk of loans taken by nine firms’, *New Straits Times*, 2 October 2005 at: www.audit.gov.my/LipMedia27.10.05/Okt1/link2.htm

⁷⁹ Interviews in Malaysia, 7-10 November 2005.

⁸⁰ www.statistics.gov.my

⁸¹ See the Statistics Act 1965 (revised 1989) at:

www.statistics.gov.my/english/frameset_organisation.php?file=statistic_act